

Alabama Medicaid Budget Presentation
Joint Alabama Legislative Budget Committee – January 16, 2008
Carol H. Steckel, Commissioner

A firm foundation.

It is a concept that our society values. Whether you are talking about the foundation upon which you base your faith, build your house, educate your children or run state government, our success is contingent upon having a strong, secure foundation on which to operate.

I am here today not only to present our proposed budget for Fiscal Year 2009, but also to discuss the very important steps the Alabama Medicaid Agency is taking to ensure that we operate in a fiscally responsible manner while building a solid foundation for the future.

This may sound like government-speak to you, but, here is what it means for the Alabama Medicaid Agency:

First and foremost, it means that we are building a foundation that values each and every person we finance healthcare services for. The decisions we make must be balanced by the needs of all of the people we serve including some of our state's most vulnerable citizens: the elderly, chronically ill, the disabled and children.

Nearly 1 million Alabamians depend on Medicaid for their health care services.

- 21% of Alabama's citizens are eligible for some type of Medicaid coverage.
- Over 50% of all births, or approximately 30,000 births each year, are paid for by Medicaid.
- 39% of Alabama's children depend on Medicaid for health coverage.
- 20% of Alabama's elderly residents are Medicaid eligible.

- 74% of the nursing home residents in participating facilities are Medicaid eligible.
- 65% of all nursing home beds in Alabama (in an average month) are funded by Medicaid.
- More than 14,000 elderly and disabled individuals currently participate in one of six home and community-based waivers.
- Medicaid pays for over 7 million prescriptions a year.

Building a sound foundation means that we make decisions, within our limited resources, based on principles of quality care and good medicine.

Investing in a system that promotes prevention not only improves the quality of life for our recipients but also reduces the costs of the program. I would much rather build a foundation that pays \$500 a year for an individual to have high blood pressure medicines than pay \$40,000 a year for a nursing home bed after a person has had a stroke. I would much rather pay for someone to have diabetic education, annual foot and eye exams and medicines than pay \$144,000 or more for a kidney transplant or \$10,000 for a foot amputation. This is a clear definition of win-win -- the Medicaid program saves money but more importantly, the individual remains a contributing member of society with a significantly improved quality of life.

Building a sound foundation means that we use technology, new medical knowledge and innovation to get the most for taxpayers' money.

The Alabama Medicaid Agency has a long record of efficient management and we do a very good job of correctly paying claims to medical providers for qualified recipients. That is a fact that national studies support. Our administrative cost of about 3 percent is among the nation's lowest.

Historically it has been our mission to pay claims correctly and timely. Now, we are in a select group of state Medicaid programs chosen to lead a national transformation effort to

move beyond just paying claims correctly to using technological know-how, national health care guidelines and the power of collaboration to create a health care system that is driven by information, accountability and results.

In other words, better health care at a lower cost.

These are not empty words or wishful thinking. 2007 was a landmark year in terms of innovation and transformation at the Alabama Medicaid Agency.

Some of our important achievements include:

- Our Together for Quality transformation grant, a \$7.6 million federal grant, which allows us to provide more up-to-date and comprehensive information to healthcare providers, giving them better tools to provide care to their patients. This program will involve creating an Electronic Clinical Support Tool for physicians, a Care Coordination system for patients with chronic illnesses, such as asthma or diabetes, and the ability to create data linkages with other state health and human service agencies, starting with the Department of Senior Services
- The Personal Choices or “Cash and Counseling” initiative with the Department of Senior Services to support certain elderly and disabled individuals’ efforts to exercise greater choice over who provides personal services. Alabama was the first state in the nation to incorporate this into its State operational plan.
- The development of a new application and eligibility system modernization effort which will foster greater efficiency, reduce barriers and streamline the application process for recipients and caseworkers through a more customer-oriented, paperless system.

We are currently working in cooperation with our pharmacy providers to implement a new reimbursement system for pharmacy services and prescription drugs. We will

develop a program that not only fairly reimburses pharmacists for the acquisition cost of drugs but also will reflect the cost of doing business and the professional services provided by our pharmacists.

Because of the federal requirement that we eliminate the PHP hospital reimbursement system, we will soon begin working with our hospital providers to develop a new hospital payment system. Our goal is to implement a system that is budget-neutral for the hospital program.

As we look critically at the decisions we make and the projects we undertake, we try to answer two important questions: Does this program change or expenditure support the patient centered/quality focused priority of the Agency? Does it help transform the health care system into one that invests in better healthcare, prevention and care coordination?

Building a sound foundation means that we live within our means. Every day in the state of Alabama, people make tough decisions about what they can and cannot afford. State government must do the same.

For Medicaid in Alabama, it means that we do not expand our program when we cannot afford it. It also means looking for ways to preserve the benefits and coverage we now have while we go through this process of transformation – building our strong foundation.

2007 was a challenging year for the Alabama Medicaid Agency. Being a partner with the federal government brings multiple mandates, changes in law, changes in regulations and a variety of oversight agencies.

Some of the issues we have dealt with over the last 12 months include recent federal mandates such as Citizenship and Identity requirements, Tamper-Resistant Prescription Pad requirements, a new pharmacy reimbursement regulation, Graduate Medical

Education regulation, units of government regulation, rehabilitative services regulation, school-based services regulation, targeted case management regulation, increased audit requirements for hospitals, Payment Error Rate Measurement regulation and other changes in reporting information to the Centers for Medicaid and Medicare Services – our federal oversight Agency.

These requirements are on top of other unfunded federal mandates through the years that have added millions to our budget and severely limited our flexibility to manage the program. Some of these previous mandates are the Pryor Amendment of 1990 which required coverage of virtually all drugs, the mandated coverage for Medicare recipients or more recently, implementation of the HIPAA regulation and use of a National Provider Identifier number.

This year's budget process also has been made more difficult by a change in what the federal government allows, increases in utilization and inflation and the substantial loss of one-time funds.

Our request for an additional \$149.6 million dollars for Fiscal Year 2009 reflects a loss of \$111 million state dollars in one time funds. This includes one-time funds from Hurricane Katrina relief and the loss of one-time revenues from Upper Payment Limit cost settlements.

The good news is that the FMAP, the federal medical assistance percentage, or matching rate, improved slightly, from 67.62 percent to 67.98 percent, easing our budget burden by an estimated 13.8 million state dollars. This rate has been declining, so this was very welcome news.

Given the very limited increase in general fund revenues, Medicaid has responded with a budget that does not provide for any expansions and does not continue funding for three mandates placed in the Children's Trust Fund budget last year. This budget does not continue funding for the expansion of coverage for orthotics and prosthetics, the

expansion of our pharmacy coverage for the 5th brand name drug (per month) or the 505 additional Elderly and Disabled waiver slots. The funding in the Fiscal Year 2008 budget was for one year and we believe, given the state of the General Fund, it would be inappropriate to continue programs that were optional.

As frustrating as it is for all of us, there are still some unknowns even at this stage of budget preparation. As you know, we have been involved in intense negotiations with CMS for the past several months over what can be included or excluded in the calculation of certified public expenditures. In spite of what you may have been told, the Bachus Amendment DOES NOT protect the state from the challenges we are facing regarding our previous payment methodologies. We are still in the negotiation process and I assure you that when it is appropriate or if there is something the Alabama Legislature can do to assist us in this matter I will be contacting you. We are not certain when these negotiations will finalize.

In keeping with our philosophy of making patient-centered decisions based on good medicine and quality care, we are implementing several prescription drug policy changes to preserve an individual's access to medically-necessary drugs, while reducing costs to the Medicaid program.

These initiatives include:

Revising the criteria and payment methodology for Hemophilia blood products. In cooperation with our hemophilia health care community we have revised our payment methodology in addition to establishing a quality standard that all providers must meet in order to provide these services. This change will save the General Fund an estimated \$1.38 million dollars in FY 2009.

Implementing a Positive Antipsychotic Management, or PAM program, which will support use of FDA-approved indications and evidence-based, age appropriate utilization of anti-psychotic drugs. In reviewing our claims records, we have discovered significant

use of potent anti-psychotic drugs without an FDA-approved diagnosis. In some cases, we have found very young children on multiple antipsychotic drugs without a diagnosis that matches the drugs. This initiative would require physicians prescribing antipsychotic drugs for non-FDA approved indications to submit medical justification for approval. This change will save the General Fund an estimated \$2.8 million dollars in FY 2009.

Improving our Dispense as Written requirements which will require providers to document medical necessity for expensive brand-name drugs when a generic equivalent is available. This change will save the General Fund an estimated one-half of a million dollars in FY 2009.

Eliminate coverage of generic and OTC drugs for cough/cold symptoms for adults.

As mentioned earlier, we will return to 4-brand limit on October 1, 2008. We estimate that this will save the General Fund \$1.4 million dollars.

Our own track record is proof that initiatives such as these work well.

Implementation of our Preferred Drug List, prior authorization requirements and other pharmacy initiatives demonstrate that using evidence-based national guidelines and best practices do not keep Medicaid recipients from getting the medicine they need nor does it increase costs in any other area of the program. In addition, Agency drug utilization reports show that we have an approximate 60 percent generic utilization, which demonstrates that our Preferred Drug List and brand limit programs are working.

We are also implementing new radiology management criteria and interventions. High-tech imaging has been recognized nationally as a service that is consuming more and more health care dollars – on average a national growth rate of 15 to 18 percent each year. The Agency proposes the implementation of coverage policies and management strategies that can make a positive impact on this high-cost expenditure while enhancing quality of care. This initiative is expected to save the General Fund an estimated one-half a million dollars in FY 2009.

All of us at the Medicaid Agency appreciate the support we receive from the Governor, the Congressional delegation and the Legislature. Like you, we too would like to expand Medicaid, increase services and insure that every Alabamian has access to a full range of health care services. However, it is critically important that all participants in the health care arena – providers, insurers, employers and employees -- be at the table when we talk about covering the uninsured. Medicaid is but one component in the health care system.

This year is a critical year for the Alabama Medicaid program. I call on each and every one of you in this body to allow us to build our foundation so that next year, if the resources are available, we have a program that is even more efficient and effective than we have now. Allowing us the opportunity to build this foundation will insure that any new services or programs are implemented in such a way as to insure the taxpayers of Alabama the biggest bang for their bucks. In addition, this foundation will insure a program that focuses on quality, prevention, education and first and foremost – the people we serve.

Thank you very much for your time. I would be glad to answer any questions you may have.